



# McPherson's Limited

ACN 004 068 419

105 Vanessa Street  
Kingsgrove NSW 2208  
Australia

Locked Bag 5018  
Kingsgrove NSW 1480

Telephone: +61 2 9370 8000  
Facsimile: +61 2 9370 8090

## **McPHERSON'S LIMITED MANAGING DIRECTOR'S ADDRESS by MR PAUL MAGUIRE ANNUAL GENERAL MEETING 24 NOVEMBER 2014**

I welcome this opportunity to provide you with an update on the strategy being pursued by the McPherson's team.

As emphasised in my recent Results presentation to the market, McPherson's Limited is a Company undergoing a major transformation in response to changing market conditions.

McPherson's stated strategy is:

*"To substantially **transform** through acquisition & divestment, the establishment of new agency relationships and channel expansion.....**diversifying** away from margin constrained channels and increasing participation in channels with greater profit potential."*

Over the past two years, post the demerger of 'McPherson's Printing Group', significant transformation and diversification has been achieved through...

- ... the identification, acquisition and successful integration of EPS accretive businesses; delivering synergy benefits and providing growth within more profitable channels
- ... the divestment of the Crown Glassware business, thus exiting a less profitable channel
- ... partnering with a global manufacturer & distributor of Housewares products
- ... partnering with profitable new Health & Beauty agency brands; and
- ... developing and launching comprehensive new innovative product ranges within existing and new profitable channels

Transforming the company through diversification assists in better managing risk.

By way of example, McPherson's has lessened its exposure to foreign exchange, with USD purchases reducing to an estimated 65% of total purchases in Financial Year 2015, down from 83% in Financial Year 2013. In addition, McPherson's has increased the number of channels it serves; expanding distribution in pharmacy, electrical retail and commercial building, thus lessening its reliance on any one channel.



Before elaborating on our achievements to date, I would like to briefly recap the structure of the business and the progress and expectation for each of the divisions.

There are four key divisions within the business; Health & Beauty, Home Appliances, Housewares and Household Consumables. Each of the divisions houses strong brands such as Manicare, Dr LeWinn's, Euromaid, Wiltshire, Stanley Rogers and Multix; all of which have significant heritage in the market.

The Health & Beauty division grew this past year due to new products and acquisitions, and this division is strategically placed to be a major source of future growth.

Like the Health & Beauty division, the Home Appliance division grew in its own right and was further boosted by acquisition activity. The Home Appliance business will continue to grow this year due to the full year effect of acquisitions as well as new product development.

In contrast, the Housewares division declined in revenue as a consequence of the divestment of the Crown Glassware business and the implementation of a major range rationalisation to boost efficiency and subsequent profitability. Sales going forward will be lower in the short term but profitability will be enhanced.

The Household Consumables business retained its market leadership position with the Multix brand and this leadership position is expected to be maintained in the future.

McPherson's Impulse Merchandising business is relatively small, making up only five percent of total revenue, thus it is managed within the Health & Beauty division. The Impulse Merchandising business showed a decline in revenue due to distribution changes within a major retail chain; however, this trend will be reversed this financial year due to a new agreement with a major retailer.

It is important to recognise what the McPherson's team has achieved so far with respect to business transformation. We assess our progress from both an operational perspective and a growth perspective. The pursuit of operational excellence is of key importance as it impacts the Company's efficiency and productivity - and thus profitability.

### *Operational Excellence*

Recently the Company's IT System (or ERP System) in Australia was upgraded, with a roll-out of the upgraded system across the Group subsequently embarked upon. McPherson's business in New Zealand transitioned to the upgraded IT System in September 2014 and concurrently transitioned its logistics function to a third party logistics service provider (capitalising on the scale of the 3PL service provider), thus ensuring McPherson's long term competitiveness in New Zealand.



In the early stage of McPherson's transformation, capacity for over 2000 additional product lines was created at the 'pick to light' Distribution Centre in Sydney, with half of this additional capacity now being utilised by the products associated with recent acquisitions and new agency partnerships.

Complementing this initiative was the installation of RF (Radio Frequency) technology in the Distribution Centre, which has boosted efficiency levels to new heights.

Underperforming product ranges have been rationalised and removed from the business, substantially reducing overheads and improving profitability. A good example is a 30% reduction in the total Housewares product range, leading to improved financial outcomes.

The Company's structure has been optimised in response to the reduced number of product lines within parts of the existing business, and all acquisitions have been successfully integrated. In addition, price increases have been successfully implemented across all channels.

### *Growth*

As mentioned, we also assess our progress from the perspective of growth. Growth driven by:

- innovative new products
- partnering with other companies (as we have done in Housewares with the Fackelmann Group and in Health & Beauty with Proctor & Gamble); and
- strategically and financially astute acquisitions

Numerous innovative new product ranges have been brought to market across all divisions so as to drive innovation and growth, as well as off-set the financial impact of competitor activity and customer private label initiatives.

A very exciting growth initiative, which crystallised just this month, was the formalisation of McPherson's partnership with the Fackelmann Group; a global manufacturer and distributor of Housewares products, headquartered in Germany.

Fackelmann is an accomplished global player in the Housewares industry, operating 35 manufacturing and distribution centres worldwide. Our partnership provides us with the opportunity to benefit this year and beyond from our collective strengths and scale, as well as better service the needs of our customers.

Numerous initiatives are already being pursued, with the aim of:

- optimising procurement and supply chain
- integrating infrastructure
- leveraging scale
- harmonising existing product assortments
- gaining access to products from other markets; and
- providing existing Australian brands access to international markets



The Company's transformation timeline highlights that over the past two years the primary driver of diversification has been acquisitions and new agency partnerships. Throughout that time McPherson's has made eight Earnings per Share accretive acquisitions and formed four new agency partnerships.

All acquisitions have been successfully integrated; delivering scale, synergies, diversification and solid returns, with full year financial benefits to come in Financial Year 2015 from the most recent acquisitions. New agency partnerships have recently been formed with two owners of prestigious Beauty brands; further leveraging McPherson's existing infrastructure and boosting future profits for all parties.

Our most recent acquisitions strengthen McPherson's position in the Health & Beauty industry and highlight the emphasis that the Company places on the premium segment of the Beauty market.

Dr LeWinn's and Revitanail were acquired in October 2013 and are iconic skincare and beauty treatment brands respectively. A'kin and Al'chemy were acquired very recently, and these premium brands embody ranges of natural skincare and natural haircare products. All of these brands will leverage McPherson's infrastructure and strength, particularly in the pharmacy and beauty channels.

Other acquisitions made over the past year signal McPherson's intention to establish a presence of significant scale within the Home Appliance industry.

Think Appliances and the Baumatic brand were acquired in October 2013 and the Lemair brand was acquired in April 2014 to complement McPherson's existing Home Appliance business. These acquisitions further diversify the Company through access to different types of products and increased exposure to the electrical retail, hardware and commercial channels.

Two new agency partners that recently joined forces with McPherson's are Trilogy and Proctor & Gamble.

Trilogy is a highly regarded and well recognised natural skincare brand within the Pharmacy and Beauty channels, with a strong heritage in the marketplace. McPherson's provides the Trilogy business with a single, integrated approach to distribution, sales and marketing in Australia.

In August 2014 McPherson's was appointed by Proctor & Gamble (P&G), the largest consumer products company globally, to represent its Fine Fragrance business in Australia. McPherson's is proud to partner with Proctor & Gamble and distribute the Fine Fragrances marketed under the prestige brands - Gucci, Dolce & Gabbana, and Hugo Boss.

McPherson's partnership with P&G is a significant win for the business and evidences the capability and strength that McPherson's can bring to bear with respect to the marketing of prestige beauty products across all channels in the beauty market.



It has been an extremely busy year for the McPherson's team and it is clearly evident that the stated strategy to transform the business is progressively unfolding.

Of critical importance is what can be expected going forward:

- trading conditions are expected to remain consistent with the past year
- a level of uncertainty exists due to currency volatility but improved financial performance is still expected this year
  - o strong performances from Health & Beauty and Home Appliances are expected given the full year effect of acquisitions, new agencies and new products
  - o Housewares' competitiveness will be boosted by the new partnership with the Fackelmann Group and Household Consumables (with the Multix brand) is expected to maintain its strong market position
- a solid pipeline of innovative new products exists to support the portfolio of market leading brands
- key operational initiatives will improve productivity and profitability
- e-commerce capability and participation will continue to strengthen; and
- further business diversification will be pursued via divestment, synergistic acquisitions and new agency partnerships



McPHERSON'S

# McPherson's Limited Annual General Meeting

## STRATEGY UPDATE

Paul Maguire – Managing Director

**24 November 2014**



# TRANSFORMATION



McPherson's stated strategy is:

***“to substantially **transform** through acquisition & divestment, the establishment of new agency relationships and channel expansion...  
...**diversifying** away from margin constrained channels and increasing participation in channels with greater profit potential”***



Significant transformation & diversification achieved through...

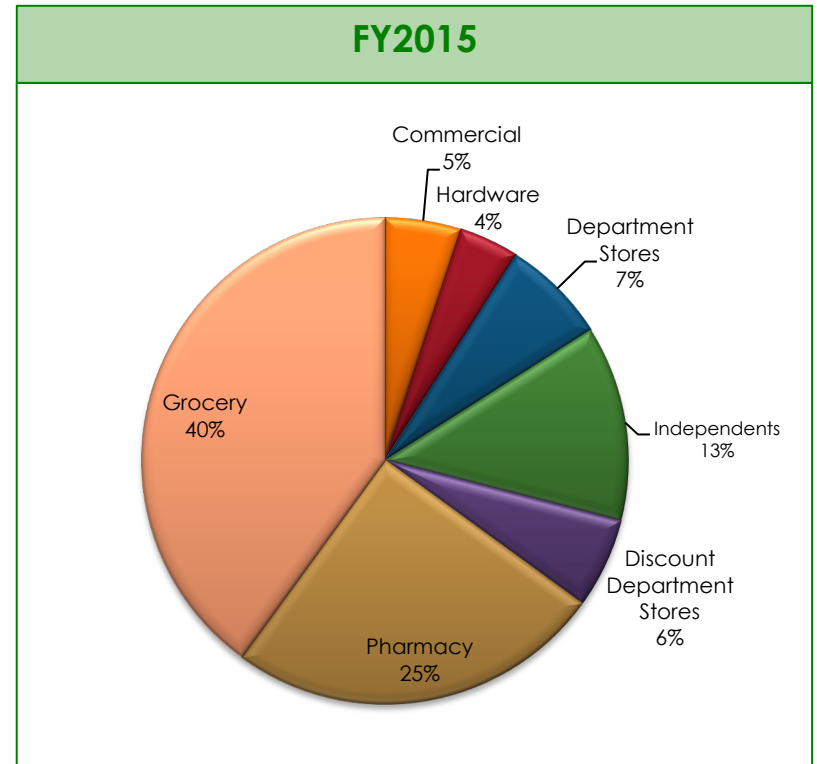
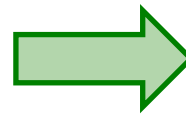
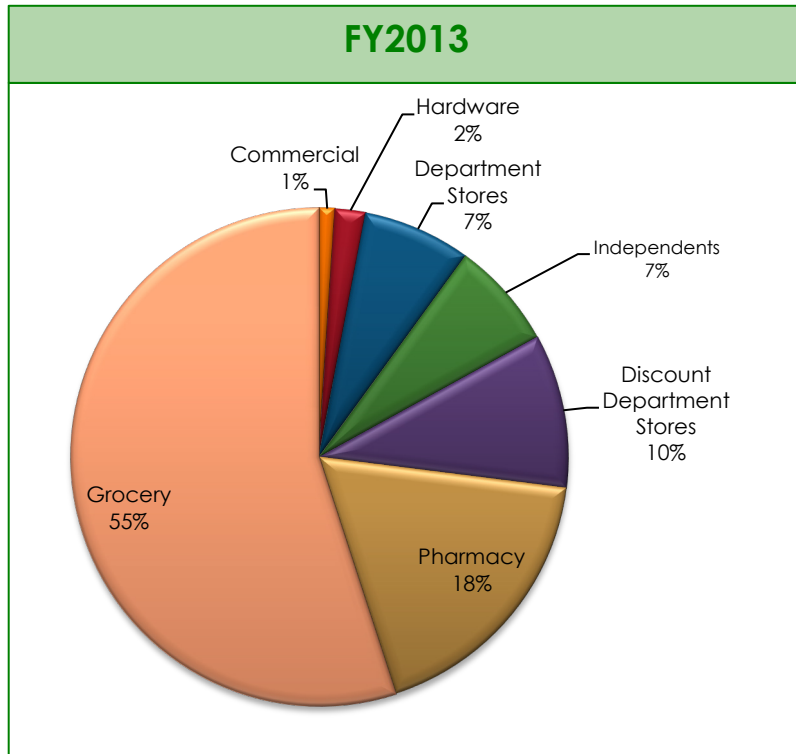
- ... the identification, acquisition and successful integration of EPS accretive businesses; delivering synergies and providing growth
- ... the divestment of the Crown Glassware business, thus exiting a less profitable channel
- ... partnering with a global manufacturer of Housewares products
- ... partnering with profitable new Health & Beauty agency brands; and
- ... developing and launching new innovative product ranges



# Company transformation benefits




- ▶ Transforming the company through diversification better manages risk:
  - Lessened exposure to foreign exchange
  - Improved channel mix



# Divisional revenue summary



		<b>% OF TOTAL REVENUE FY2014</b>	<b>REVENUE GROWTH FY14 vs FY13</b>	<b>REASONS</b>	<b>OUTLOOK</b>
<b>HEALTH &amp; BEAUTY</b>	  <b>DR. LEWINN'S</b>	31%	13%*	New products & acquisitions	Growth in revenue and profit
<b>HOME APPLIANCES</b>	  APPLIANCE CHIC	17%	523%**	Full year effect of acquisitions	Growth in revenue and profit
<b>HOUSEWARES</b>	  	22%	(8%)	'Crown Glassware' divestment and product rationalisation	Lower sales but improved profitability
<b>HOUSEHOLD CONSUMABLES</b>	 <i>Inspiring Professional Results</i>	25%	0%	Market leadership maintained	Continued market leadership and consistent performance
<b>OTHER (e.g. Impulse Merchandising)</b>	 <i>if you need it we've got it</i>	5%	(18%)	Distribution changes	Growth through new ranging

\* Health & Beauty growth rate excluding acquisitions = 2.5%, \*\*Home Appliance growth rate excluding acquisitions = 16.0%



## ***Operational Excellence Initiatives***

- ▶ IT System upgrade in Australia and roll-out across the Group
- ▶ McPherson's NZ business transition – new IT System and 3PL service provider
- ▶ Capacity for 2000 additional product lines at the Sydney 'Pick to Light' DC
- ▶ 'Pick to light' Distribution Centre efficiency boosted by new technology
- ▶ Product ranges rationalised; reducing overheads & improving profitability
- ▶ Company structure optimised and acquisitions successfully integrated
- ▶ Price increases successfully implemented across all customers



## ***Growth Initiatives***

- ▶ Innovative new product launches
- ▶ New 'Housewares' partnership
- ▶ New 'Beauty' agency partnerships
- ▶ Eight Earnings per Share accretive acquisitions

# New Product Introductions



**Euromaid** Black Pearl Built-In Range

4-way Ergonomic Buffer



Eternal Youth – Day & Night Serum

**DR. LEWINN'S**

Multi Moisture Balm



Lux Collection

**Lady Jayne** since 1928



**[Alchémÿ]**  
Natural Dry Shampoo





- ▶ The FACKELMANN Group:
  - a global manufacturer and distributor of Housewares products
  - operating 35 manufacturing and distribution centres worldwide
- ▶ New venture, FMG 51% : MCP 49%, established 1 Nov 2014

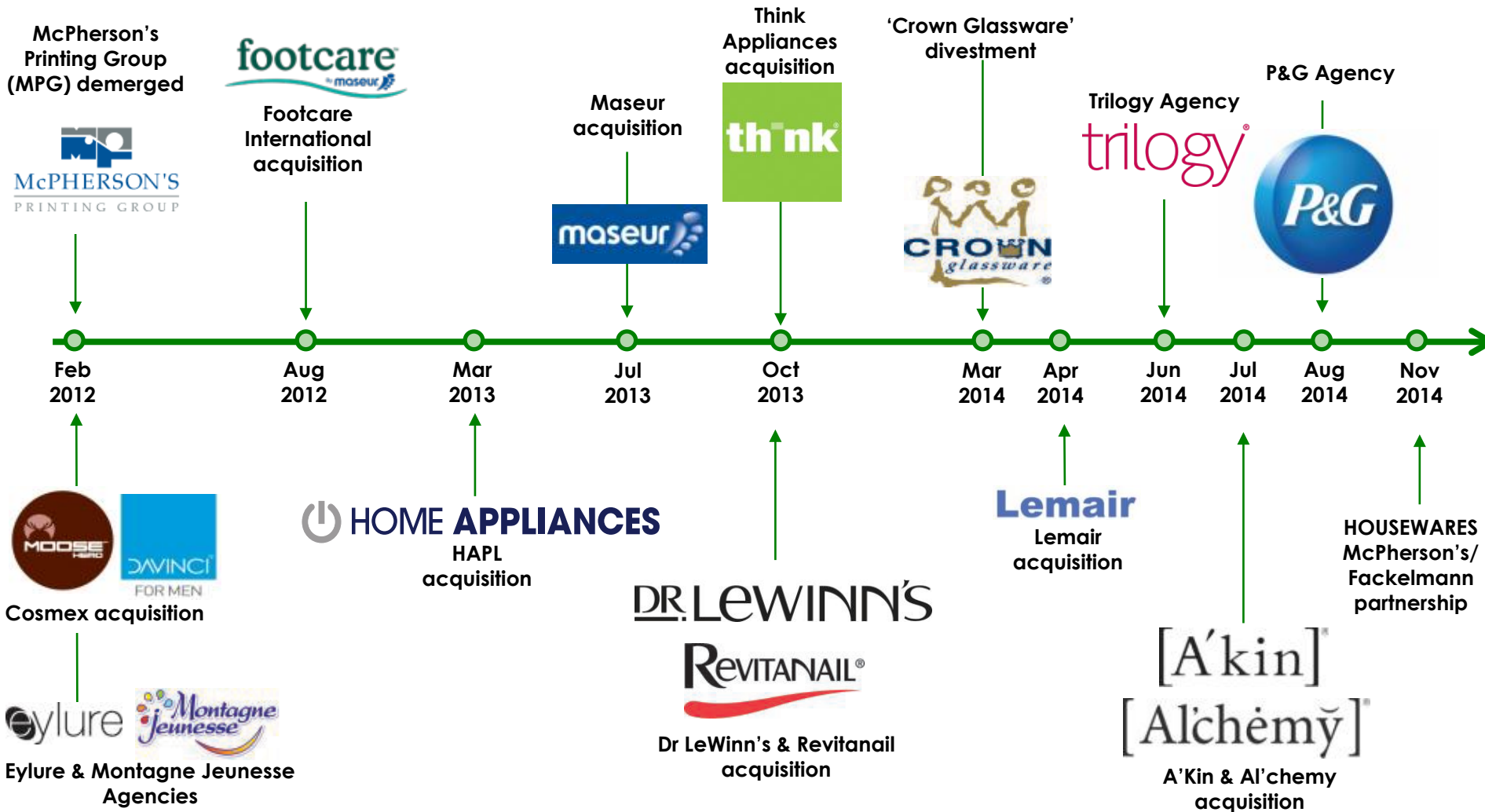


- ▶ Both businesses will benefit from their collective capabilities; leveraging scale and brand assets, and integrating infrastructure

# Company transformation timeline



*Diversification achieved via acquisitions & new agencies since 'McPherson's Printing' demerger*





▶ Dr LeWinn's & Revitanail

- Annual revenue approx' \$20m
- Iconic skincare brand & beauty treatment brand
- Leveraging McPherson's infrastructure and strength in the pharmacy and grocery channels



▶ A'kin & Al'chemy

- Annual revenue approx' \$8m
- A range of natural skincare products (A'kin) and a range of natural shampoos, conditioners and treatments (Al'chemy)
- Leveraging McPherson's infrastructure and strength in the pharmacy channel



[A'kin]<sup>®</sup>



[Al'chemy]<sup>®</sup>





## ▶ Think Appliances

- Annual revenue approx' \$30m
- Baumatic and Venini brands
- Further diversifying McPherson's by increasing business in the electrical retail, hardware and commercial (home building) channels



## ▶ Lemair

- Annual revenue approx' \$2m
- A niche heritage brand in the refrigeration category, complementing our comprehensive portfolio of appliance brands





## ▶ Trilogy

- Trilogy is a highly regarded and well recognised natural skincare brand in the Pharmacy and Beauty channels, with a strong heritage in the marketplace
- McPherson's provides the Trilogy business with a single, integrated approach to distribution, sales and marketing in Australia



# New Fragrance Agency Partner



**McPherson's** appointed Australian distributor for Proctor & Gamble (P&G) Fine Fragrances  
– **Gucci, Dolce & Gabbana, Hugo Boss**



# Going forward...



- ▶ Trading conditions expected to remain consistent with the past year
- ▶ A level of uncertainty exists due to currency volatility but improved financial performance is still expected this year
- ▶ Strong performances from Health & Beauty and Home Appliances given the full year effect of acquisitions, new agencies and new products
- ▶ Housewares' competitiveness boosted by the new partnership with the Fackelmann Group and Household Consumables' to maintain its strong market position
- ▶ A solid pipeline of innovative new products exists to support the portfolio of market leading brands
- ▶ Key operational initiatives will improve productivity and profitability
- ▶ E-commerce capability and participation will continue to strengthen
- ▶ Further business diversification via divestment, synergistic acquisitions and new agency partnerships



McPHERSON'S

# McPherson's Limited

*Mission*

To be a world class consumer products company  
*through*

1st choice **products for consumers**

*and by being a*

1st choice **partner for customers and suppliers**

1st choice **employer for employees**

1st choice **investment for shareholders**

